FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS
DECEMBER 31, 1998 TO DECEMBER 31, 1999

HIGHLIGHTS

This report highlights the conditions and trends of Region 1 credit unions at yearend 1999. The region's 1,362 credit unions have strong capital and earnings, declining delinquency, healthy liquidity, and positive growth in most major balance sheet components.

The conditions and trends include the following:

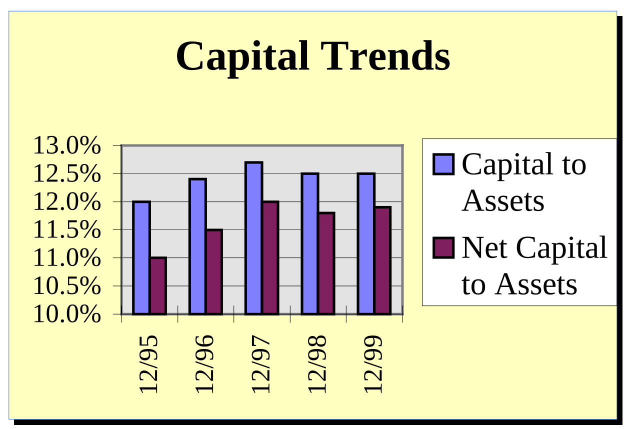
- ✯ Assets increased to $47.3 billion;
- ✯ Loans increased to $29.3 billion. Loans represent 62.0 percent of total assets;
- ✯ Investments declined to $14.1 billion. Investments represent 29.8 percent of total assets;
- ✯ Shares increased to $40.4 billion, with non-member deposits increasing by 26.4 percent to $60.5 million;
- ✯ Capital increased to $5.9 billion, and represents 12.5 percent of total assets;
- ✯ Delinquency continued to decline, with delinquent loans falling by $21.7 million to 0.7 percent of total loans;
- ✯ Profitability remained strong, with a return on average assets of 1.0 percent; and
- ✯ Liquidity remains positive, while borrowings increased to 1.9 percent of total shares and capital.

- ✯ The following table recaps growth rates, in percentages and dollars, for key balance sheet components:

	Growth	
Category	***Percent***	***Dollars (billions)***
Assets	5.8	$2.6
Loans	8.4	2.3
Investments	-9.3	-1.5
Shares	4.4	1.7
Capital	5.8	0.3

CAPITAL

Reflecting national trends, capital remains strong while net capital increased to 11.9 percent. Capital growth matched asset growth in 1999. The increase in net capital resulted from the declining level of problem loans.

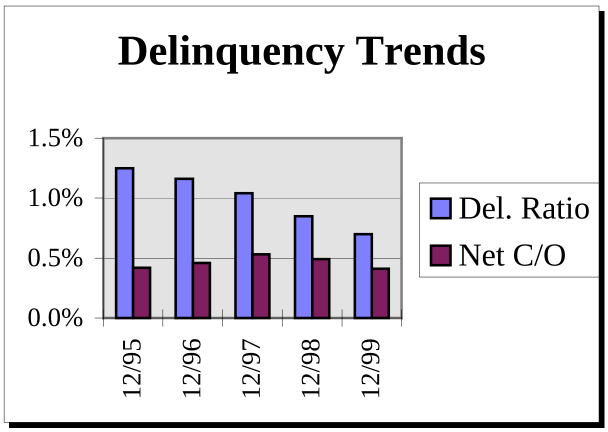


The region's gross capital and net capital ratios of 12.5 percent and 11.9 percent, respectively, remain higher than the national averages. Nationally, the gross capital ratio is 11.6 percent, while the net capital ratio is 11.0 percent.

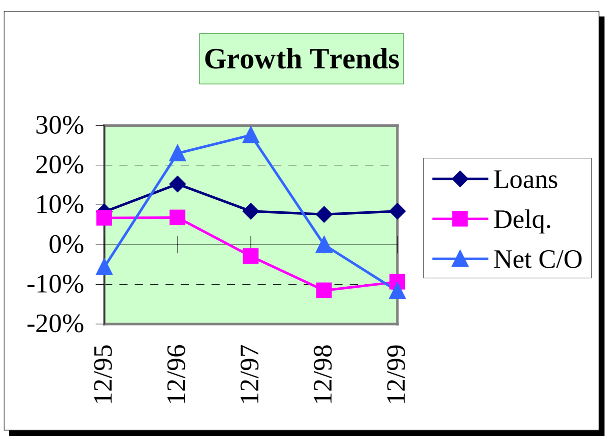
ASSET QUALITY

Total loans increased by 8.4 percent, exceeding 1998's growth rate of 7.6 percent. Investments declined by 9.7 percent. The delinquent loan and net charge-off levels continue to decline.

The delinquent loans to total loans ratio declined to 0.7 percent, compared to the national ratio of 0.8 percent. The region's ratio of net charge offs to average loans also declined to 0.4 percent, and is below the national ratio of 0.5 percent.



Net charge offs declined by 11.7 percent, following increases of 24, 28 and 0 percent in 1996, 1997, and 1998, respectively. Delinquent loans, which fell by 9.4 percent, declined for the third consecutive year.



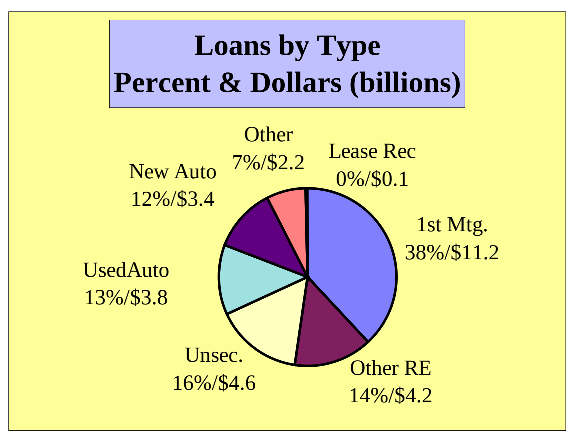
The amount of loans subject to bankruptcy declined by $16.3 million, or 24.4 percent. This follows a 17.4 percent decline in 1998.

The delinquency and net charge off trends continue to reflect the impact of the strong national and regional economies.

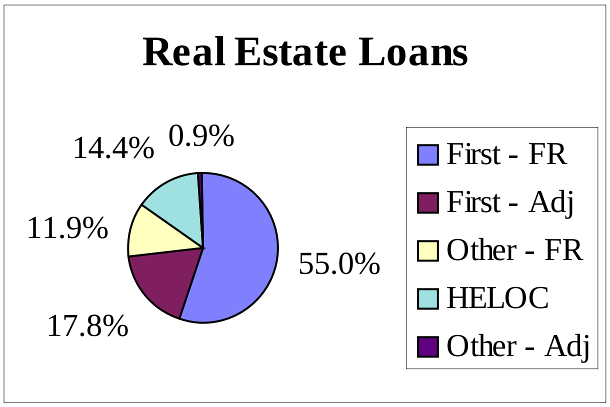
Loan Trends: First mortgage real estate loans grew by the largest amount. The $1.2 billion increase in these loans represented 54.8 percent of the net increase in total loans. This trend is reflective of the low interest rates experienced over the past year and the strong housing market. However, as interest rates increased in 1999, growth declined from an annualized rate of 15.5 percent at midyear to 12.6 percent at yearend.

	Growth	
Loan Category	**Percent**	**Dollars (millions)**
All Other Loans	88.4	81.6
First Mortgages	12.6	1,245.7
Used Auto Loans	11.2	378.7
Other Real Estate	9.9	375.9
New Auto Loans	2.9	95.2
Unsecured Credit Cards	2.5	47.8
Other Member Loans	1.4	27.8
Other Unsecured Loans	-0.9	-24.8
Lease Receivables	N/A	46.5
TOTAL	8.4	2,274.4

Below is the breakdown of loans by type:

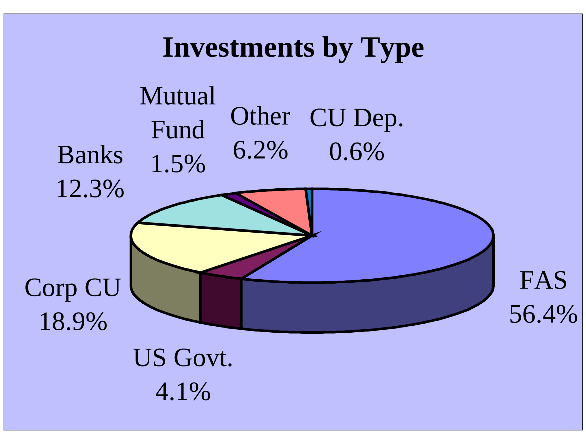


Real estate loans of $15.3 billion comprise 52.3 percent of all loans in the region, compared to 38.3 percent nationally. The largest growth came in fixed rate, first mortgage loans which total 55.0 percent of all mortgages. The amount of real estate loans sold on the secondary market declined by 26.8 percent, to $704.8 million. Nationally, real estate loans sold declined by 34.3 percent.

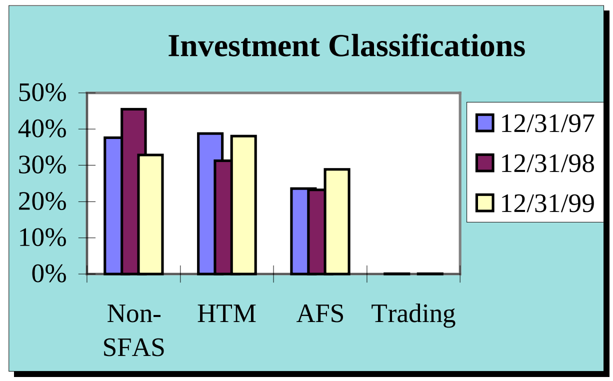


Investment Trends: Investments declined by 9.7 percent ($1.5 billion), compared to a 14.2 percent increase in 1998. The largest increase, in dollars, came in Federal Agency Securities which increased by $1.3 billion. The only other categories reporting increases are All Other Investments (46.1 percent) and MCSD and PIC in corporate credit unions (8.4 percent).

US Government Obligations continued to decline significantly. These investments declined by 53.0 percent, following a 24 percent decline in 1998.

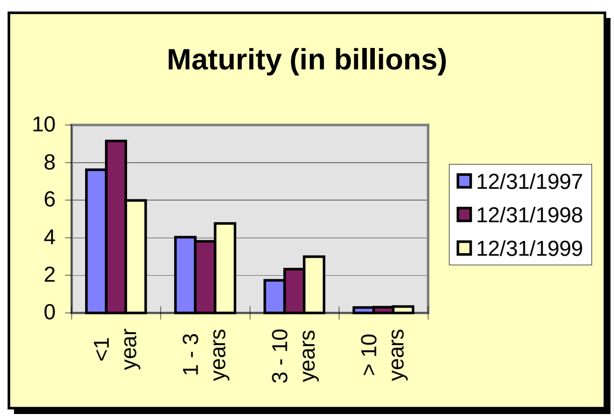


While the trading category makes up only 0.1 percent of total investments, these investments experienced the highest growth rate at 59.3 percent. The only category to decline was Non-SFAS 115 investments. These investments declined by $2.3 billion (33.0 percent).



Credit unions reported substantial growth in short term (less than one year) and total investments in 1998. This reflected the additional liquidity needs for Y2K purposes. At yearend 1999, short term investments fell by $3.2 billion (34.7 percent).

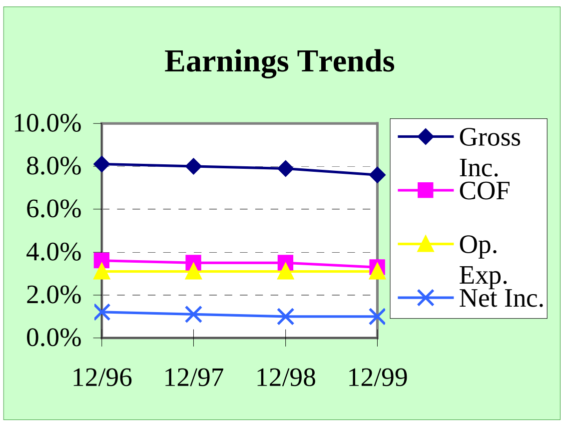
These funds were used in part to increase available cash reserves by $1.8 billion, an increase of 200.8 percent. Investments greater than one year increased $1.6 billion as credit unions laddered excess funds to increase their yield:



Region I credit unions continue to be fairly conservative with 76.3 percent of investments maturing in less than three years. Short term investments currently amount to 26.6 percent of all shares.

EARNINGS

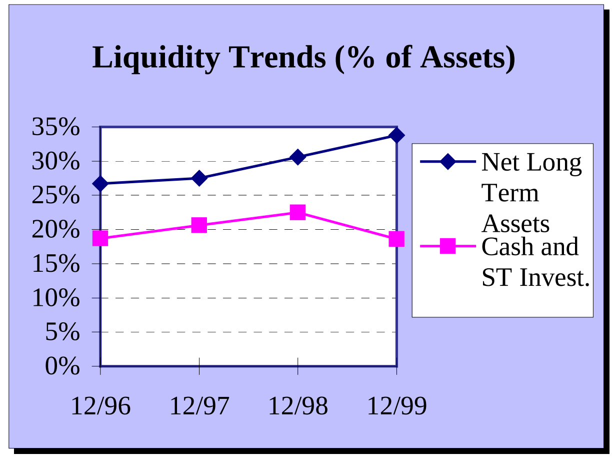
Region I credit unions continue to report a stable return on average assets of 1.0 percent. This is slightly higher than the national average of 0.9 percent.



These trends reflect the success of credit union management in pricing share and loan products. While the yield on assets declined, this was offset by reductions in the cost of funds and operating expenses.

LIQUIDITY

The net long-term assets to total assets ratio increased from the yearend 1998 level of 30.6 percent to 33.8 percent. This resulted from an 11.8 percent increase in real estate loans and growth in long term investments. Region I continues to exceed the national aggregate ratio of net long-term assets, which was 24.9 percent at yearend 1999. This mirrors the region's comparatively higher level of real estate loans.

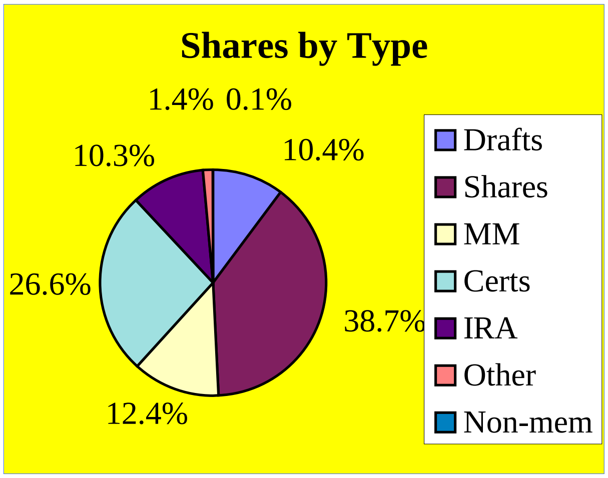


Cash plus short-term investments as a percentage of assets declined from 22.5 percent to 18.2 percent. Share growth of 4.4 percent and declining investments funded loan growth of 8.4 percent and the increase in available cash.

Shares increased by $1.7 billion to $40.4 billion. All share categories, except other shares, reported increases at yearend. The largest percentage increases occurred in nonmember deposits and money market accounts. Money market accounts also increased by the largest amount, $766.6 million. Share growth occurred exclusively in accounts with maturities of less than a year ($1.9 billion).

Share Trends: Below is the distribution:

Share Type	*Amount (billions)*	*% growth*
Drafts	$4.2	4.6%
Regular	15.6	2.1%
Money Mkt	5.0	18.0%
Certificates	10.7	4.6%
IRA/Keogh	4.2	0.2%
Other	0.6	-8.5%
Non-member	0.1	26.4%
TOTAL	$40.4	4.4%



Borrowing Trends: Total borrowings increased by 215 percent to 1.9 percent of total shares and capital. This is an increase from 0.6 percent as of yearend 1998 and above the 1.2 percent national average.

The significant increase, regionally and nationally, is primarily related to planning for Y2K liquidity needs. The level of borrowed funds should decline in 2000 as credit unions reduce cash levels to pre-Y2K levels. The loan to asset ratio did increase to 62 percent from 60.5 percent in 1998. However, this ratio is within historical parameters and does not indicate a need to borrow funds to meet loan demand.

SUMMARY

Regional trends for capital, earnings and delinquency are strong. The primary concern remains asset liability management as credit unions continue to increase fixed rate real estate loans. Region I credit unions managed to reduce their cost of funds in 1999, primarily through growth in lower cost share types. However, an increasing interest rate environment will begin to adversely affect earnings and asset values.